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Premium

Transformation Capital Partner, Michael Dixon's Investment Strategy – Second Fund.

Megan Hernbroth

- Transformation Capital said Wednesday it raised \$500 million for its second fund following a spin-out from Silicon Valley Bank in 2019.
- The growth stage firm invests only in digital health companies that are Series B or later, and will invest between \$10 million and \$40 million per company.
- Transformation Capital managing partner Mike Dixon hinted that the firm will continue investing along three distinct trends with its second fund.
- Those trends include virtual-only primary care, machine learning applications for healthcare, and companies that serve the Medicare Advantage population.

Healthcare investing just got even more competitive. Transformation Capital, a growth-stage healthcare VC firm, said Wednesday it raised \$500 million for its second fund. It was founded in 2016 with investment firm Leerink and ultimately spun out into an independent firm in 2020 after Silicon Valley Bank bought out Leerink in 2019.

That was roughly when Mike Dixon joined as managing partner after investing at Silicon Valley VC stalwart Sequoia Capital. He was brought over by Transformation cofounder and fellow Sequoia alum Todd Cozzens and ex-Bain partner Dr. Jared Kesselheim.

With the fresh funds, Dixon said Transformation Capital will remain competitive in the increasingly competitive healthcare investing landscape, which saw record-setting activity in 2020. He said the biggest draw for entrepreneurs – besides the fundraising checks – is Transformation's singular focus on digital health and the wealth of knowledge that comes with the team's collective decades of experience building, running, and investing in companies within healthcare.

"Compared to other areas of tech investing, the digital health area requires a whole lot more than tech expertise to be successful, so to be a worthwhile partner to founders you have to know a lot about how healthcare works and who works in healthcare," Dixon told Business Insider.

The growth-stage firm typically invests in a company's Series B or later, Dixon said, and tends to invest between \$10 million and \$40 million over a company's lifetime.



Transformation Capital

Transformation Capital managing partner Mike Dixon.

Dixon's team has already invested in three startups since raising Fund II. It's invested in virtual primary care provider PlushCare, healthcare AI startup Olive, and biopharma data analytics company H1 Insights.

Dixon said the three investments are indicative of the investments that'll happen in Fund II, adding that he is also interested in backing companies that cater to patients on Medicare Advantage or Medicaid Advantage insurance plans.

Hands-on advice backed by decades of experience

With so much investor interest pouring into digital health, Dixon remains confident that Transformation can remain competitive while retaining its expert reputation among entrepreneurs.

"Healthcare is complicated. You can't just throw money at every problem," Dixon said. "That's why entrepreneurs should think about having people with experience in the market. It's not just about money."

LetsGetChecked founder and CEO Peter Foley said he knew he needed investors with healthcare experience when he set out fundraising for his at-home testing startup. Foley was diagnosed with testicular cancer when he was 16, a condition that went

undiagnosed for months. He drew inspiration from that experience to found the testing startup that provides user-friendly at-home health tests.

Optum Ventures, the VC arm of health insurance giant United-Health, led the startup's Series A, and later introduced Foley to Transformation, which went on to lead the company's Series B in May 2019. At first, Foley said he wasn't planning to raise growth-stage funding so soon, but changed course after meeting the Transformation team and hearing about their extensive experience working in healthcare.

Cozzens is now chairman of LetsGetChecked's board of directors,

and has helped hire key members of the startup's executive team, Foley said.

During the early days of the pandemic, Foley said Cozzens was eager to help the company navigate uncharted waters, but largely let Foley and the management team decide how the company would proceed.

"They've been instrumental," Foley said. "They weren't just a passive investor. They have teed up future financing rounds and helped us close those rounds as well. It's the right level of involved; they get involved when they can add value and aren't just getting involved to be involved."